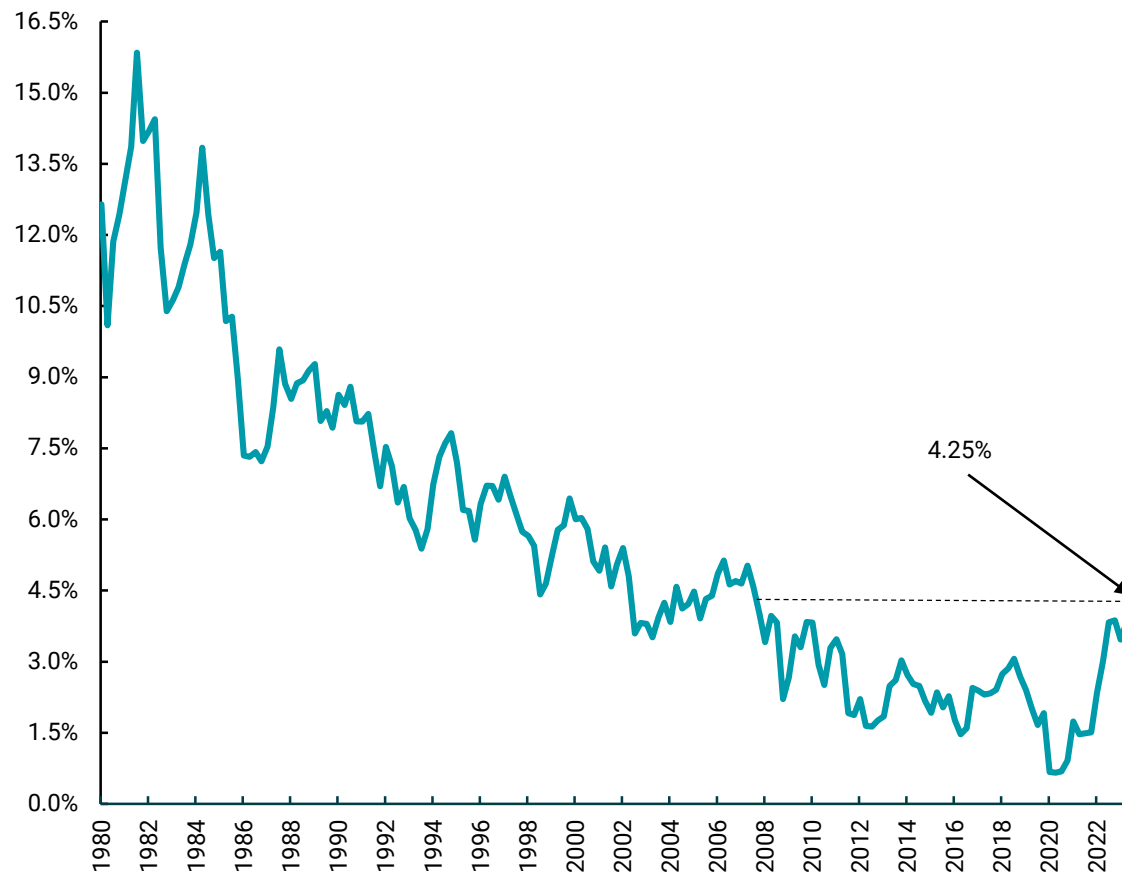


Weekly market update



Chart of the week (Aug. 25, 2023)

10-Year Treasury Yield



The resilience of the U.S. economy has been impressive. Even as the Federal Reserve raises rates aggressively, economic growth remains positive, and unemployment remains low. In recent weeks, however, this resilience has led to concerns about the future of Fed monetary policy. Specifically, may the Fed have to raise rates further than currently expected?

We have noted the increase in longer-term inflation expectations, and this week's chart shows the impact on the 10-year Treasury note. This chart spans over 40 years, and it is increasingly clear the long downward-sloping path of rates since 1981 is being reversed. In fact, the 10-year note is now at levels not seen since before the financial crisis. Rates tied to the 10-year, like 30-year mortgage rates, have spiked higher, too.

Only a couple of months ago, the bond market thought the Fed would be ready to begin cutting rates in the fourth quarter of 2023. After all, inflation was, and still is, coming down, and it appeared economic weakness was in the offing. So, what has changed? First and foremost, the U.S. consumer continues to be supported by a strong job market and higher wages have increased personal incomes despite being blunted by inflation. For a while, gasoline prices were falling, leading to a fairly rapid decrease in headline inflation measures.

Recent measures of economic activity indicate the domestic economy could even be accelerating a bit, as retail sales were higher than anticipated. Spending data indicates that some of the consumer strength could be from increased credit card use. Still, it is clear the increase in rates to date is not having the negative economic impact that many expected.

In this environment, the Fed is being forced to consider how restrictive rates really are. After a long period of low inflation where small increases in rates led to quick slowdowns in economic activity, are we now in a new period where the levels of monetary, especially fiscal, accommodation are still working their way through the economy? The Fed has repeatedly stated a concern about easing monetary policy too soon. Yet, the bond market might very well be telling the Fed they may need to consider a higher terminal rate, or at the very least, the idea of rate cuts is now being pushed further into the future. As we move forward, we can expect these higher rates to be a headwind for stocks.

Weekly market update

Commentary (Aug. 25, 2023)

Domestic Equities

- Some U.S. indices, particularly the tech-heavy Nasdaq Composite, broke the losing streak they had been in all month with gains this week.
- Market indices increased through Wednesday in anticipation of Nvidia's earnings report aftermarket Wednesday. It did not disappoint. Surging demand has allowed the company to raise prices significantly, resulting in gross profit margins over 70%, nearly double what they were a year ago. Investors are taking the report as confirmation of the legitimacy around the AI theme.
- After months of strong gains the market rally stalled out this month as investors assess if valuations have become too stretched in a high interest rate environment with no relief in sight. Stocks were mixed after Fed Chair Powell's speech on Friday, first declining on the hawkish tone, then rising into the close of the week.

Bonds

- U.S. Treasury yields initially dropped, led by strength at the long-end, on softer U.S. and European PMI data. However, yields rebounded into the end of the week, driven by stronger-than-expected U.S. employment data and comments made by Fed Chair Jerome Powell.
- At the Jackson Hole Symposium on Friday, Fed Chair Powell confirmed that the central bank is prepared to raise rates further if needed and that it plans to keep borrowing costs high until inflation is on a convincing path toward the Fed's 2% target. Powell's comments were taken as slightly more hawkish than expected, with the probability of a 0.25% hike in November rising above 40% as indicated by the Fed Fund futures curve.
- Turkey's central bank surprised international markets by hiking the one-week repo rate from 17.5% to 25%, leading to a large jump in the Turkish lira against the U.S. dollar.

International Equities

- Global investors continued to digest corporate earnings and assess new economic data that could shape the trajectory of global monetary policies.
- Developed markets clawed back some of last week's losses as most markets across Europe rebounded. Eurozone business activity declined more than expected in August. This continuing weakness bolsters the expectation that the European Central Bank could pause its campaign of interest-rate increases next month.
- Emerging markets moved higher this week following three consecutive weeks of losses. Markets across Asian and Latin American markets performed well. Headline inflation in Mexico slowed in early August to 4.67%, reaching its lowest level since March 2021. Market consensus still believes that Mexico's central bank will hold policy rates steady at 11.25% in the near term.

Economics

- The U.S. Census Bureau reported housing starts in July increased 3.9%, above the revised June estimate. However, housing completions were down 11.8% compared to June.
- The Census Bureau also reported seasonally adjusted durable goods orders declined 5.2% in July, reversing four consecutive monthly increases. The monthly decrease was due to lower new orders of transportation goods.
- Initial claims for unemployment insurance for the week ending August 19 were 230,000, a decline of 10,000 from the prior week and below the four-week average of 236,750.
- The Job Openings and Labor Turnover Survey (JOLTS) report is released on Tuesday. Consumer spending and personal income is released on Thursday. On Friday, the August jobs report will be released.

Weekly Market Update

For Week Ending August 25, 2023

Markets					Equity Style					Economic Data																																																																																																																																																																																																																												
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